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Sept. 1935

The Volume of Advertising and Agricultural and Urban Purchasing Power. 1/

The close interdependence that exists between agricultural purchasing power and volume of business done by industries directly dependent upon the farm market exists also between the volume of advertising in farm papers and farm income. Data have recently been assembled on the general volume of advertising made up of lineage in newspapers, magazines and farm papers. An examination of these figures shows how closely advertisers appear to be guided by their appraisal of consumer purchasing power.

The volume of advertising in newspapers and magazines combined is an accurate reflection of the urban consumers total purchasing power or money income. The rise in volume of advertising in these media between 1922 and 1929 followed the same upward trend as did the national income (excluding farm income) and since 1929 it has shown about the same slump and recovery as shown by the national income.

The volume of advertising in farm papers similarly has been affected by the course of farm income. In the pre-depression years when farm income advanced from 1922 to 1925, advertising in farm papers advanced. When farm income ceased to advance during the generally prosperous years 1926-1929, advertising in farm papers "flattened" out. Since 1929 farm paper advertising was curtailed much more than advertising in newspapers and magazines, just as farm income fell much more than the total of urban incomes.

1/ Preliminary Report by Louis H. Bean, U. S. Department of Agriculture.

There is one outstanding fact in the relation of farm income to advertising in farm papers which does not appear as clearly, if at all, in the other: while the amount of spendable farm income in a given year is a very large factor in determining the volume of advertising in that year, the income of the previous year is an additional factor. Thus the volume of advertising in farm papers increased in 1926 when farm income had declined, because of the continued influence on farmers purchasing of the previous year's high income; advertising was sustained in 1930 by farm income of 1929 in spite of the depression already in progress; and the volume of advertising in farm papers reached its yearly low in 1933 because of the continued effect of the lowest agricultural purchasing power which occurred in 1932.

From the low point of the depression there has been a much sharper advance in farm income than in the incomes of all other groups combined, and this too is reflected in a similar difference between advertising in farm papers and in newspapers and magazines. Taking the first quarter of 1933 as a basis for comparison, the national income (exclusive of farm income) has risen about 20-25% and the corresponding volume of advertising about 35%. Cash income from farm marketings during the crop year 1934-35 has averaged about 70% above that of the first quarter of 1933 (seasonal difference allowed for), and advertising in farm papers has been about 55% higher. In recent months the volume of advertising has been relatively as high as farm income, but if the one-year lag in the effect of farm income on advertising were to continue, it would seem that the higher farm income of 1934 and 1935 would call for a still

higher volume of farm paper advertising in 1935 and 1936 than of the first half of 1935.

The foregoing generalizations are based on the following set of 5 charts entitled as follows:

Figure 1 - Volume of Advertising in Farm Papers, Newspapers and Magazines, 1922 to 1934.

2 - Advertising in Newspapers and Magazines and National Income, 1922 to 1934.

3 - Farm Cash Income and Advertising in Five National Farm Papers, 1928 to 1934.

4 - "Spendable" Farm Income and Advertising in National Farm Publications and State and Sectional Papers, 1922 to 1934.

5 - Advertising and Consumer Incomes, monthly, January 1933 to date.

Figure 1 shows the course of advertising for the years 1922-1934, inclusive, in farm papers and in magazines and newspapers, expressed as a percentage of the 1924-1929 average. The outstanding fact revealed here, in addition to the great curtailment during the current depression, is that prior to 1929 the volume of advertising in magazines pursued an upward trend more nearly in line with general business conditions and the national income than was the case with advertising in farm papers. The upward trend in advertising in farm papers was checked after 1926, the year which marked the end of the advancing period in farm income during the 1920's.

Between 1929 and 1933 advertising in farm papers declined much more sharply than advertising in magazines and newspapers, and this also is in line with the greater decline in farm income

than in the national income. The three groups show the lowest volume to have occurred in 1933, and an improvement in each in 1934. This is, on first thought, somewhat surprising since farm income in 1933 was higher than in 1932, while the aggregate non-farm income was lower in 1933 than in 1932, but apparently a lag of about one year is usual (as shown in Figures 3 and 4) in the complete effect of farm income.

The close correspondence between non-farm income and advertising intended largely for the non-farm population is indicated in Figure 2. The index of advertising in magazines and newspapers combined (each being given equal weight) follows very closely the indexes of national income (exclusive of farm income). Between 1930 and 1933 the decline in advertising in magazines and newspapers was somewhat greater than the decline in total national income. On the other hand, the increase in advertising between 1933 and 1934 was somewhat greater than the increase in the national income. The significance of the discrepancy in 1932 and 1933 is not clear. It might be the result of using an index of advertising in magazines and newspapers, each of which is given equal weight in the combination. It may also arise from the fact that certain portions of the national income which are not currently available for purchasing power should be excluded in this analysis.

The dependence of advertising in national farm papers upon farm income is illustrated in Figure 3. The data here represent the dollar value of advertising in five national farm papers, which in 1929 amounted to something more than 11 million dollars and in

1933 to only 4 million dollars, and 5.2 million dollars in 1934. Farm income in this illustration is represented by farm cash income after deducting taxes and interest, giving a balance that may be called spendable farm income. The year to year correlation in this comparison is not as close as in Figure 2, where the national income, excluding farm income, is contrasted with advertising in magazines and newspapers. But on closer examination the real nature of the dependence of advertising in farm papers on farm income is revealed. What we have here apparently is a lag between farm income and advertising in farm papers. Advertising in farm papers in any given year seems to depend not only upon the income in the current year, but also income of the previous year. This is evidenced in the fact that advertising in farm papers declined only moderately in 1930 in spite of the rather sharp decline in farm income between 1929 and 1930. It is also indicated in the fact that annual farm income reached a low point in 1932, whereas advertising in farm papers reached a low point in 1933. A much closer correspondence would be obtained if an average of farm income for the current year and the preceding year combined were compared with advertising in the current year.

The fact that advertising in farm papers is related to income of the preceding year as well as to the current year suggests that in 1935 and 1936 advertising in farm papers should average noticeably higher than in 1934 if the relationship of the past years continues to hold good. For 1935 the spendable cash income is expected to be approximately 5.8 billion dollars, compared with 5.4 billion dollars in 1934. The higher income in 1935

as well as the higher income of 1934 should tend to support the level of advertising in farm papers above the 1934 volume, provided those who place advertising in farm papers continue to appraise their prospects in farm areas as they have done in the past.

Figure 4 contains annual data for advertising in National farm papers and a representative group of State and Sectional papers from 1922 to 1934 inclusive. There are also the two-year averages of spendable farm income so as to take into account the lag suggested by the data in Figure 3. The income index shown for 1922 is thus the average for the two calendar years, 1921 and 1922, and the index shown for 1935 is the average of the two calendar years, 1934 and 1935. The close correspondence between these two sets of data reveals their interdependence as well as the justification of the conclusion as to the existence of a one-year lag during the 1922-1934 period. In general, the index of advertising has averaged somewhat higher than the index of farm income during the years 1922-1928, and lower since then. Apparently, there is here a long time minor shift in the relationship between these two sets of data which could be due to the inadequacy of the indexes to other causes.

On the basis of this illustration and assuming a continuation of the 1934 spread between the two sets of data, one might expect advertising in farm papers in 1935 to average about 52% of the 1924-1929 level compared with 43% in 1934, or about 20% higher than in 1934.

Figure 5 shows in detail the monthly volume of general advertising in farm papers from January 1933 to date contrasted respectively with monthly indexes of the national income (excluding farm) and of farm cash income.

During the past year and a half, general advertising has run about 30% higher than during the first quarter of 1933, while national income has averaged about 20% higher. On the other hand, advertising in farm papers has averaged about 60% higher and cash farm income about 70% higher.

Examining this illustration in greater detail, it appears that the sharp advance in farm income during April-July 1933 brought about a sharp increase in advertising in farm papers in Aug.-Nov.1933 and another in April-June 1934; probably in part taking fuller advantage of the increased incomes of 1933 and in part anticipating the advance in farm income and benefit payments in 1934. During the first part of 1935, advertising was relatively lower than farm income, just as it was during the first part of 1934, but by the middle of 1935 has advanced in line with the farm income of the second quarter of 1935 and should hold a good part of that improvement if both the rise in income in 1934 and the further rise in 1935 continue to affect advertising during the balance of this year.

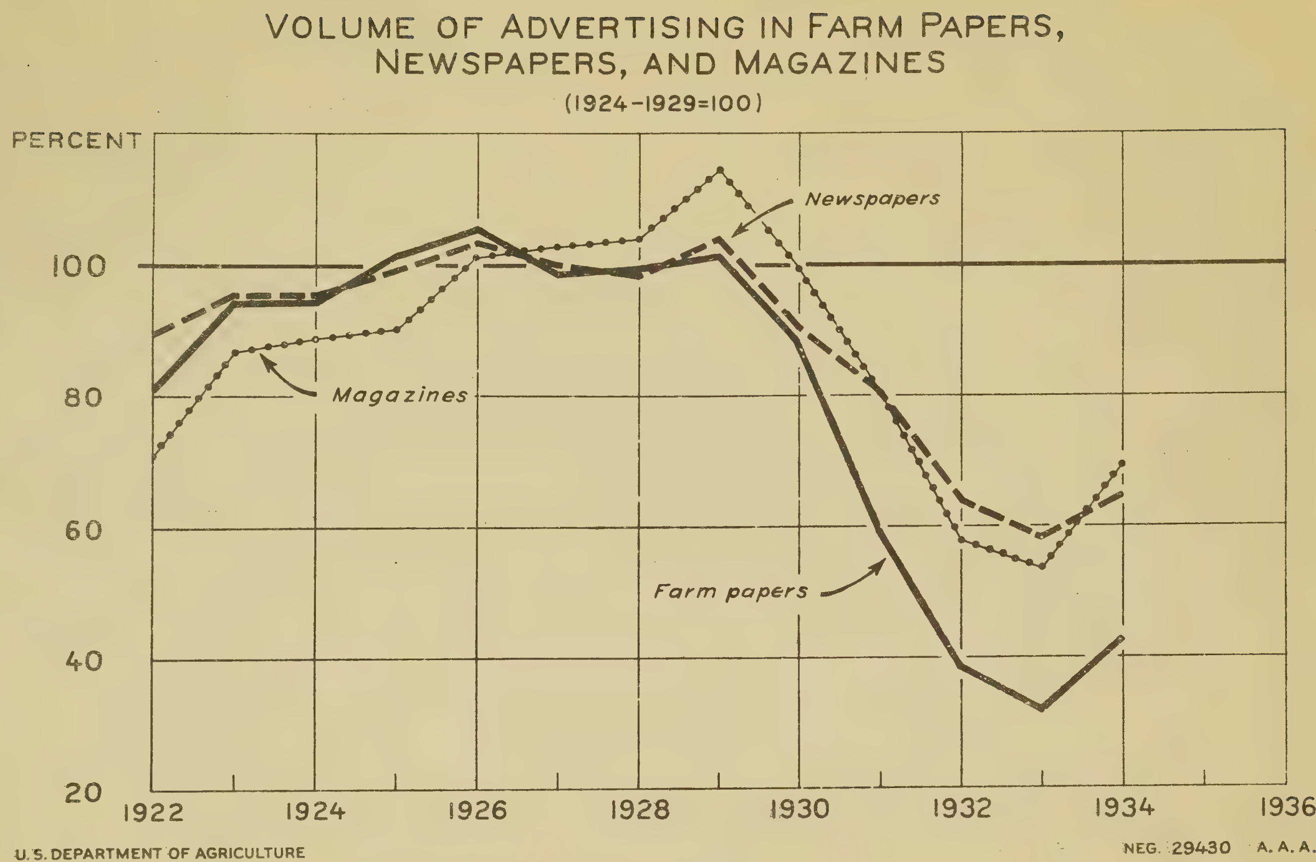

VOLUME OF ADVERTISING IN FARM PAPERS, NEWSPAPERS, AND MAGAZINES
(1924-1929=100)
PERCENT
100
80
60
40
20
1922
1924
1926
1928
1930
1932
1934
1936
Newspapers
Magazines
Farm papers
U.S. DEPARTMENT OF AGRICULTURE
NEG. 29430 A. A. A.

Figure 1

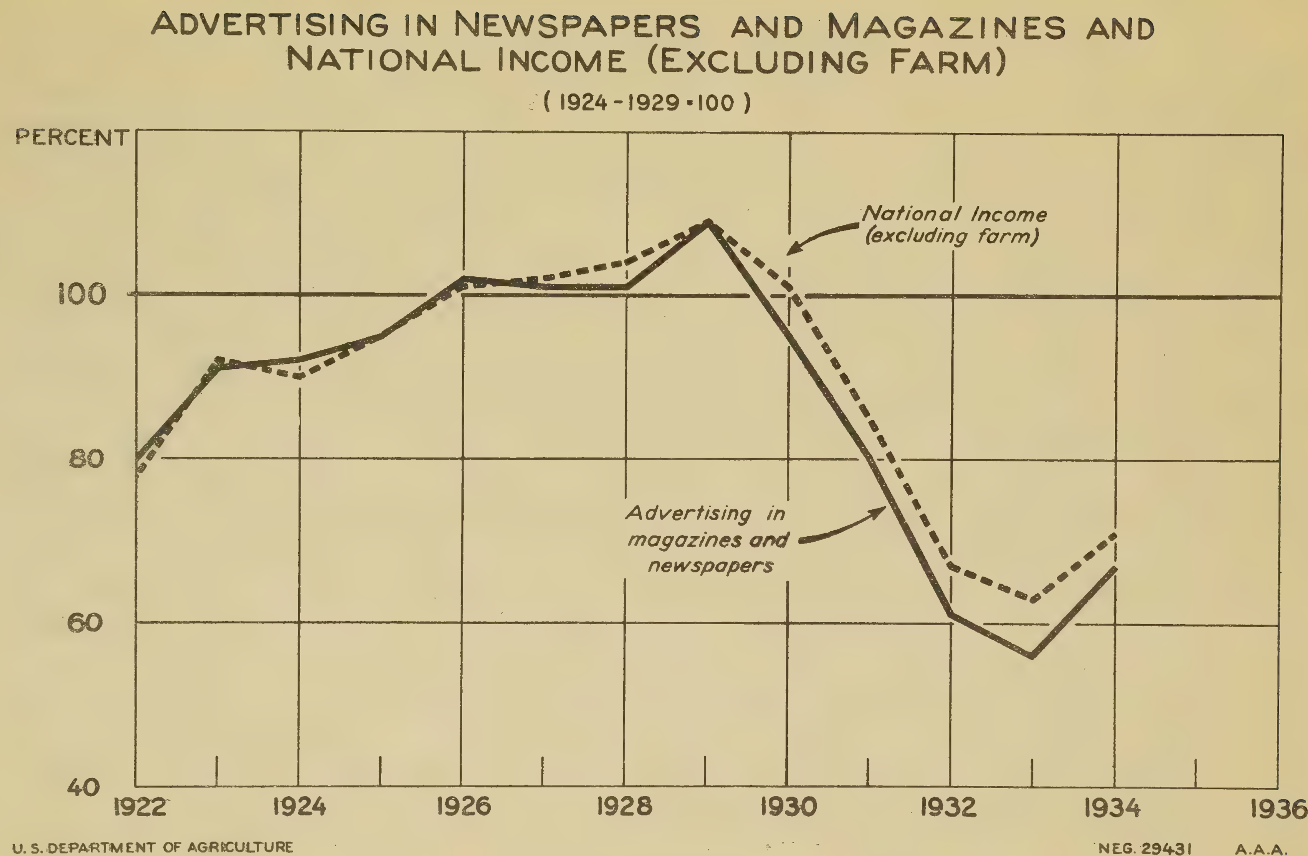
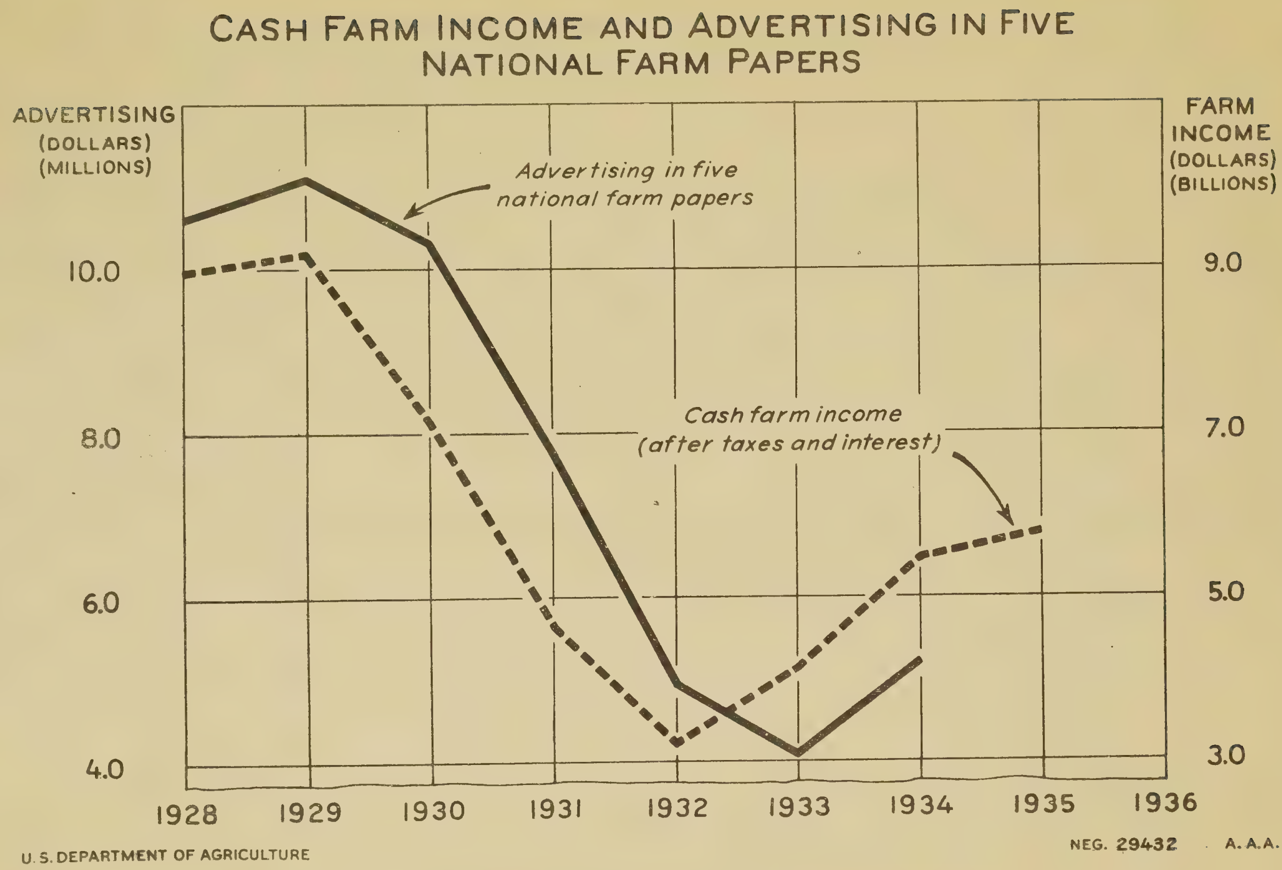

ADVERTISING IN NEWSPAPERS AND MAGAZINES AND
NATIONAL INCOME (EXCLUDING FARM)
(1924-1929=100)
PERCENT
100
80
60
40
1922
1924
1926
1928
1930
1932
1934
1936
National Income
(excluding farm)
Advertising in
magazines and
newspapers
U. S. DEPARTMENT OF AGRICULTURE
NEG. 29431
A.A.A.

Figure 2



CASH FARM INCOME AND ADVERTISING IN FIVE NATIONAL FARM PAPERS
ADVERTISING (DOLLARS) (MILLIONS)
FARM INCOME (DOLLARS) (BILLIONS)
Advertising in five national farm papers
Cash farm income (after taxes and interest)
10.0
8.0
6.0
4.0
9.0
7.0
5.0
3.0
1928
1929
1930
1931
1932
1933
1934
1935
1936
U.S. DEPARTMENT OF AGRICULTURE
NEG. 29432
A.A.A.

Figure 3

"SPENDABLE" FARM INCOME AND ADVERTISING IN NATIONAL FARM PUBLICATIONS AND STATE AND SECTIONAL PAPERS

(1924-1929 = 100)

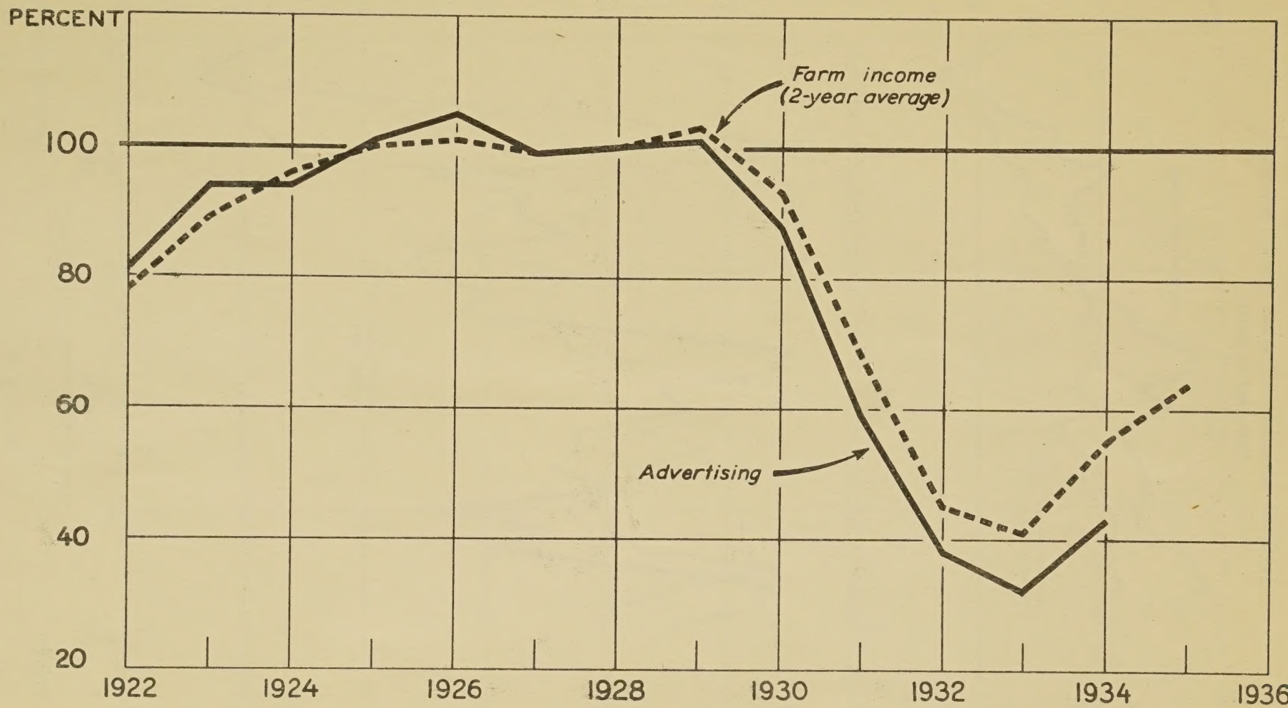


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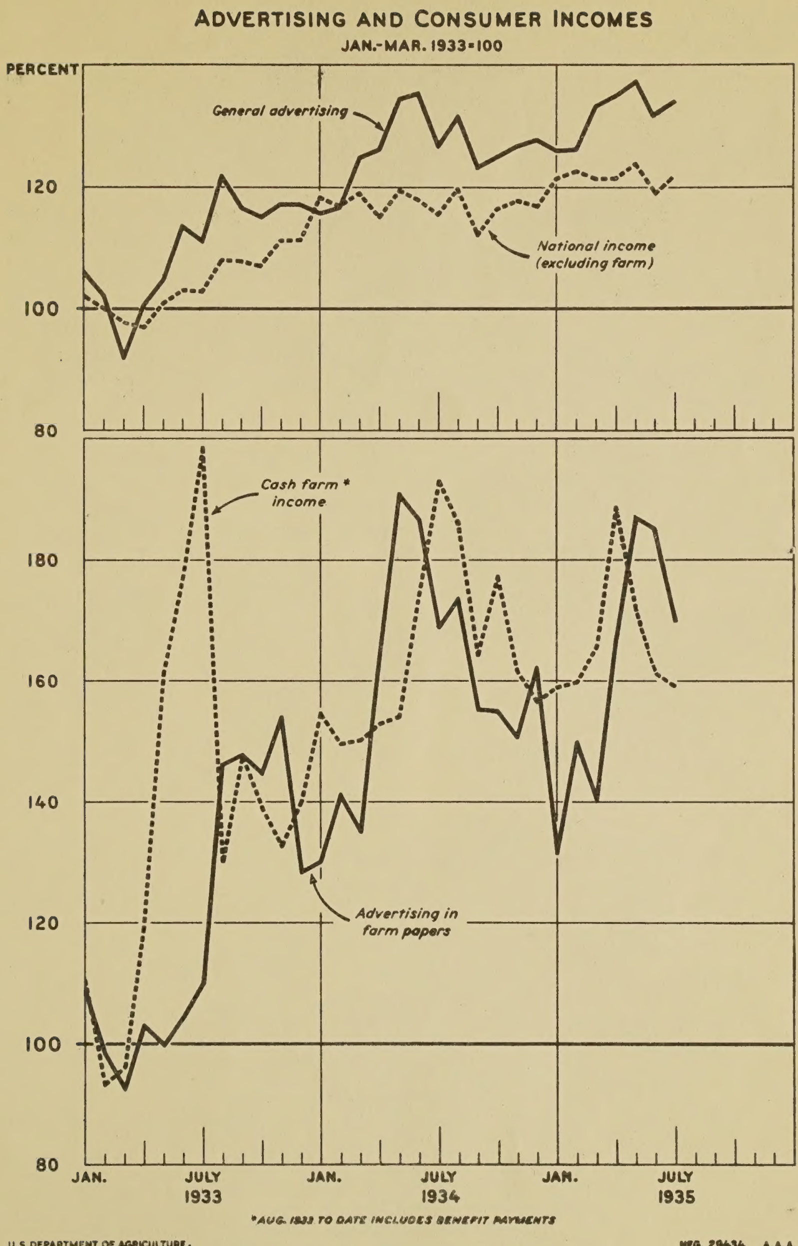
Figure 4


ADVERTISING AND CONSUMER INCOMES
JAN.-MAR. 1933=100
PERCENT
General advertising
National income (excluding farm)
Cash farm * income
Advertising in farm papers
120
100
80
180
160
140
JAN.
JULY 1933
JAN.
JULY 1934
JAN.
JULY 1935
*AUG. 1933 TO DATE INCLUDES BENEFIT PAYMENTS
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NEG. 29434 A.A.A.

Figure 5